

## Message Text

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ACTION EA-09

INFO OCT-01 EUR-12 IO-13 ISO-00 AID-05 CIAE-00 COME-00  
EB-07 FRB-01 INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04  
OPIC-06 SP-02 CIEP-02 LAB-04 SIL-01 OMB-01 NSC-05  
SS-15 STR-04 CEA-01 PA-02 PRS-01 L-03 /121 W  
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R 212001Z DEC 76  
FM AMEMBASSY WELLINGTON  
TO SECSTATE WASHDC 2495  
INFO USMISSION EC BRUSSELS  
AMEMBASSY CANBERRA  
USMISSION OECD PARIS  
USDEL MTN GENEVA  
USMISSION GENEVA

UNCLAS WELLINGTON 4746

E.O. 11652: N/A  
TAGS: EALR ETRD EFIN NZ  
SUBJ: NEW ZEALAND'S 2 PERCENT REVALUATION EVOKES MILD REACTION

REF: WELLINGTON 4453

1. NEW ZEALANDERS HAVE ACCEPTED WITH LIMITED COMMENT THE ANNOUNCEMENT BY THE PRIME MINISTER ON SUNDAY, DECEMBER 19 THAT THE NZ DOLLAR WOULD BE REVALUED BY TWO PER CENT TO RESTORE ITS RELATIONSHIP WITH THE AUSTRALIAN DOLLAR TO CLOSE TO THAT ESTABLISHED BY THE NOVEMBER 30 DEVALUATION (REFTEL). THE RECENT AUSTRALIAN REVALUATIONS HAD CHANGED THIS RELATIONSHIP THE MOST NOTABLE COMMENT WAS THAT OF THE PRESIDENT OF THE NZ MANUFACTURERS' FEDERATION, WHO CHARACTERIZED THE RECENT SEVERAL CHANGES IN THE RELATIVE VALUES OF THE NZ AND AUSTRALIAN DOLLARS AS "A TESTING SEQUENCE OF EVENTS OF MANUFACTURERS". HE SAID HE HOPED THE NZ DOLLAR WOULD NOW STABILIZE. PROVIDED THERE ISN'T ANOTHER ADJUSTMENT, HE DIDN'T SEE THE  
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LATEST MOVE CAUSING ANY DRAMATIC CHANGES.

2. THE PRIME MINISTER SAID THE REVALUATION WOULD RESULT IN THE CPI RISING LESS THAN 0.2 PER CENT. (THE ORIGINAL SEVEN PER CENT DEVALUATION WOULD HAVE PUSHED THE INDEX UP BY 0.75 PER CENT.) WHEN THE

LATEST REVALUATION IS TAKEN WITH CHANGES AGAINST ALL OTHER CURRENCIES IT REPRESENTS AN OVERALL DEPRECIATION OF 0.78 PER CENT (VS A NET DEPRECIATION OF 2.73 PER CENT AS A RESULT OF THE NOVEMBER 30 ACTION). PRIME MINISTER MULDOON SAID THAT IN DECIDING ITS LATEST ACTION THE GOVERNMENT HAD WEIGHED THE NEED TO MAINTAIN THE COMPETITIVENESS OF NZ EXPORTS AGAINST THE NEED TO PROTECT CONSUMERS FROM THE INFLATIONARY EFFECT OF HIGHER IMPORT COSTS.

3. COMMENT: THOUGH NZ HAS NOT ANNOUNCED A NEW POLICY OF "MORE FREQUENT AND SMALLER SHIFTS" THE VALUE OF THE NZ DOLLAR TO ITS BASKET OF CURRENCIES AS HAS AUSTRALIA (CANBERRA 8603), IT IS CLEAR THAT THIS NEW POLICY BY AUSTRALIA HAS INFLUENCED NZ POLICY ON HOW TO HANDLE CHANGES IN THE VALUE OF ITS CURRENCY. THE CLOSE TIE OF THE NZ ECONOMY TO AUSTRALIA ESPECIALLY THROUGH THE GROWING VALUE OF NZ MANUFACTURED EXPORTS TO AUSTRALIA IS INCREASINGLY LIMITING NZ INDEPENDENCE OF ACTION IN THIS FIELD. IT IS APPARENT THAT THE PROSPECT OF FREQUENT CHANGES IN THE VALUE OF THE AUSTRALIAN DOLLAR IS NOT PLEASING TO GNZ BUT THERE IS LITTLE NZ CAN DO OTHER THAN AS THE OCCASION INDICATES, MAKE ITS OWN ADJUSTMENTS TO THE VALUE OF THE NZ DOLLAR AS WELL. SELDEN

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